

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



35-A DISTRICT AGRICULTURAL ASSOCIATION
MARIPOSA COUNTY FAIR
MARIPOSA, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #09-034
FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

35-A DISTRICT AGRICULTURAL ASSOCIATION
MARIPOSA COUNTY FAIR
MARIPOSA, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Hardeep Kaur

Audit Chief
Assistant Audit Chief
Auditor

AUDIT REPORT NUMBER

#09-034

35-A DISTRICT AGRICULTURAL ASSOCIATION
MARIPOSA COUNTY FAIR
MARIPOSA, CALIFORNIA

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Tom Williams, President
Board of Directors
35-A DAA, Mariposa County Fair
5007 Fairgrounds Road
Mariposa, CA 95338

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 35-A District Agricultural Association (DAA), Mariposa County Fair, Mariposa, California, as of December 31, 2008 and 2007, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 35-A DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

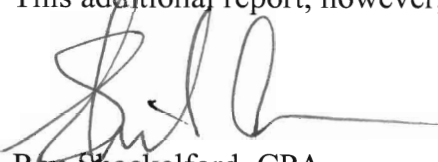
We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 35-A DAA, Mariposa County Fair, as of December 31, 2008 and 2007, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 35-A DAA, Mariposa County Fair has not presented the Management's Discussion and Analysis, which the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #09-034, on the 35-A DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 35-A DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.


For Ron Shackelford, CPA
Chief, Audit Office

April 24, 2009

**35-A DISTRICT AGRICULTURAL ASSOCIATION
MARIPOSA COUNTY FAIR
MARIPOSA, CALIFORNIA**

STATEMENTS OF FINANCIAL CONDITION
Years Ended December 31, 2008 and 2007

	<u>Account Number</u>	<u>2008</u>	<u>2007</u>
ASSETS			
Cash & Cash Equivalents	111 - 117	\$ 511,949	\$ 324,313
Accounts Receivable, Net	131-132	223	7,478
Deferred Charges	143	3,325	10,712
Construction in Progress	190	187,799	-
Land	191	5,243	5,243
Buildings and Improvements, Net	192	1,251,187	1,271,289
Equipment, Net	193	13,710	11,320
TOTAL ASSETS		<u>1,973,436</u>	<u>1,630,356</u>
LIABILITIES AND NET RESOURCES			
Liabilities			
Accounts Payable & Other Liabilities	211-226	674	1,391
Deferred Income	228	191,822	6,659
Guaranteed Deposits	241	1,350	750
Compensated Absences Liability	245	20,366	32,356
Total Liabilities		<u>214,211</u>	<u>41,156</u>
Net Resources			
Net Resources - Operations	291	301,286	301,348
Net Resources - Capital Assets, less related debt	291.1	1,457,939	1,287,852
Total Net Resources Available		<u>1,759,225</u>	<u>1,589,200</u>
TOTAL LIABILITIES AND NET RESOURCES		<u>\$ 1,973,436</u>	<u>\$ 1,630,356</u>

**35-A DISTRICT AGRICULTURAL ASSOCIATION
MARIPOSA COUNTY FAIR
MARIPOSA, CALIFORNIA**

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
Years Ended December 31, 2008 and 2007

	Account Number	2008	2007
REVENUE			
State Apportionments	312	\$ 150,000	\$ 150,000
Reimbursement - F&E Projects	318	50,000	40,000
Projects-Other Funding	340	41,154	11,091
Admissions	410	87,282	92,135
Commercial Space	415	9,115	11,075
Carnival	421	29,370	30,033
Food Concessions	422	33,970	30,391
Non-Food Concessions	423	6,875	6,080
Exhibits	430	8,294	11,984
Horse Show	440	22,345	20,314
Attractions - Fairtime	460	36,903	33,224
Miscellaneous Fair	470	38,023	36,157
Non-Fair Revenue	480	431,731	220,421
Prior Year Adjustment	490	-	47,091
Other Revenue	495	10,587	13,349
Total Revenue		955,650	753,345
EXPENSES			
Administration	500	265,775	292,131
Maintenance and Operations	520	214,544	197,444
Publicity	540	8,558	6,801
Attendance	560	40,307	29,709
Miscellaneous Fair	570	26,569	23,564
Premiums	580	25,814	16,062
Exhibits	630	19,291	18,569
Horse Show	640	23,254	32,265
Attractions - Fairtime	660	49,680	41,616
Non-Fair Expense	670	2,329	2,685
Equipment	723	115	-
Prior Year Adjustments	800	1,771	(4,590)
Cash Over/Short from Ticket Sales	850	(270)	121
Depreciation Expense	900	88,668	87,587
Capital Expenditures, F & E	920	-	4,827
Capital Expenditures, Other	940	19,221	40,000
Total Expenses		785,625	788,792
RESOURCES			
Net Change - Income / (Loss)		170,025	(35,447)
Resources Available, January 1		1,589,200	1,624,646
Resources Available, December 31		\$ 1,759,225	\$ 1,589,200

**35-A DISTRICT AGRICULTURAL ASSOCIATION
MARIPOSA COUNTY FAIR
MARIPOSA, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS
Years Ended December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses (Expenses Over Revenue)	\$ 170,025	\$ (35,447)
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	7,255	(2,374)
(Increase) Decrease in Deferred Charges	7,387	(2,284)
Increase (Decrease) in Deferred Income	185,163	(34,869)
Increase (Decrease) in Accounts Payable	8,621	(3,827)
Increase (Decrease) in Taxes Payable	(9,338)	-
Increase (Decrease) in Compensated Absence Liability	(11,990)	5,154
Increase (Decrease) in Guarantee Deposits	600	(4,686)
Total Adjustments	<u>187,699</u>	<u>(42,886)</u>
Net Cash Provided (Used) by Operating Activities	<u>357,724</u>	<u>(78,333)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Equipment	20,102	(11,320)
(Increase) Decrease in Buildings & Improvements	(2,389)	56,402
(Increase) Decrease in Construction in Progress	(187,799)	-
Net Cash Provided (Used) by Investing Activities	<u>(170,086)</u>	<u>45,082</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net Cash Provided (Used) by Financing Activities	<u>-</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	187,637	(33,250)
Cash at Beginning of Year	324,313	357,563
CASH AT END OF YEAR	<u><u>\$ 511,949</u></u>	<u><u>\$ 324,313</u></u>

**35-A DISTRICT AGRICULTURAL ASSOCIATION
MARIPOSA COUNTY FAIR
MARIPOSA, CALIFORNIA**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The 35-A District Agricultural Association (DAA) was formed for the purpose of sponsoring, managing, and conducting the Mariposa County Fair each year in Mariposa, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAAs to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board (GASB) defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges. Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Account, the DAA has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned

rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the asset. Buildings and improvements are depreciated over 30 years, and purchases of equipment are depreciated over five years. Costs of repair and maintenance are expensed as incurred by the DAA. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. The costs of projects that have not been placed in service are recorded in Account #190, Construction-in-Progress, and no

depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2

NEW ACCOUNTING STANDARDS

In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, ("GASB Statement No. 45"). This statement establishes standards for the measurement, recognition, and display of postretirement benefits other than pensions expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The statement becomes effective for the District for periods beginning after December 15, 2007. Management has not determined the effect of GASB Statement No. 45 on the combined financial statements.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Receivables and Future Revenues*, ("GASB Statement No. 48"). GASB Statement No. 48 establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving receivables should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should not be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity. This statement is effective for periods beginning after December 15, 2006. Adoption of this statement did not have a material impact on the combined financial statements.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, ("GASB Statement No. 49"). GASB Statement No. 49 requires governmental entities

to report pollution remediation costs in their financial statements. It identifies five obligating events under which the government should estimate the expected obligations for pollution remediation. Under the standard, liabilities and expenses will be estimated using an “expected cash flows” measurement technique, which will be employed for the first time by governments. Further, the standard requires that governments disclose information about their pollution remediation obligations associated with clean-up efforts in the notes to the financial statements. GASB Statement No. 49 will be effective for financial statements with periods beginning December 15, 2007, but liabilities should be measured at the beginning of that period so that beginning net assets can be restated. Management has not determined the effect of GASB Statement No. 49 on the combined financial statements.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures*, (GASB Statement No. 50”). GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (“OPEB”) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (“RSI”) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, (“GASB Statement No. 25”), and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, (“GASB Statement No. 27”) to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, (“GASB Statement No. 43”) and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, (“GASB Statement No. 45”). GASB Statement No. 50 will be effective for financial statements with periods beginning after June 15, 2007. Management has not determined the effect of GASB Statement No. 50 on the combined financial statements.

In July 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, (“GASB Statement No. 51”). GASB Statement No. 51 requires that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). GASB Statement No. 51 will be effective for financial statements with periods beginning after June 15, 2009. Management has not determined the effect of GASB Statement No. 51 on the combined financial statements.

NOTE 3 CASH AND CASH EQUIVALENTS

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2008</u>	<u>2007</u>
Petty Cash	\$ 200	\$ 200
Change Fund	130	100
Cash in Bank - Operating	56,977	36,915
Cash in Bank - Premium	258	2
Cash in Bank - Investment & Savings	<u>454,384</u>	<u>287,096</u>
Total Cash and Cash Equivalents	<u>\$ 511,949</u>	<u>\$ 324,313</u>

NOTE 4 ACCOUNTS RECEIVABLE

The DAA is required to record an allowance for doubtful accounts based on estimates of collectability.

	<u>2008</u>	<u>2007</u>
Accounts Receivable	\$ 6,923	\$14,178
Allowance for Doubtful Accounts	<u>(6,700)</u>	<u>(6,700)</u>
Accounts Receivable - Net	<u>\$ 223</u>	<u>\$7,478</u>

NOTE 5 PROPERTY AND EQUIPMENT

Buildings and improvements, and equipment at December 31, 2007 and 2006 consist of the following:

	<u>2008</u>	<u>2007</u>
Building & Improvements	\$ 3,357,431	\$ 3,292,999
Less: Accumulated Depreciation	<u>(2,106,244)</u>	<u>(2,021,711)</u>
Building & Improvements - Net	<u>\$1,251,187</u>	<u>\$ 1,271,289</u>
Equipment	\$ 132,202	\$ 125,678
Less: Accumulated Depreciation	<u>(118,492)</u>	<u>(114,358)</u>
Equipment - Net	<u>\$ 13,710</u>	<u>\$ 11,320</u>

NOTE 6

RETIREMENT PLAN

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 7

RECLASSIFICATION

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

35-A DISTRICT AGRICULTURAL ASSOCIATION
MARIPOSA COUNTY FAIR
MARIPOSA, CALIFORNIA

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 35-A DAA Board of Directors
1	Chief Executive Officer, 35-A DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



35-A DISTRICT AGRICULTURAL ASSOCIATION
MARIPOSA COUNTY FAIR
MARIPOSA, CALIFORNIA

MANAGEMENT REPORT #09-034

YEAR ENDED DECEMBER 31, 2008

35-A DISTRICT AGRICULTURAL ASSOCIATION
MARIPOSA COUNTY FAIR
MARIPOSA, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2008

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Hardeep Kaur

Audit Chief
Assistant Audit Chief
Auditor

MANAGEMENT REPORT NUMBER
#09-034

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Tom Williams, President
Board of Directors
35-A DAA, Mariposa County Fair
5007 Fairgrounds Road
Mariposa, CA 95338

In planning and performing our audit of the financial statements of the 35-A District Agricultural Association (DAA), Mariposa County Fair, Mariposa, California, for the year ended December 31, 2008, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Mariposa County Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 35-A DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 35-A DAA's assets. The system of internal control



should provide the Board of Directors and management reasonable, but not absolute, assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 35-A DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 35-A DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 35-A DAA's accounting procedures, records, and substantiating documents.

During our review of the internal control structure of the 35-A DAA and compliance with State laws and regulations, we identified no areas with reportable conditions.

However, we identified areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 35-A DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

NON-REPORTABLE CONDITIONS

INTERIM REVENUE

The Fair did not comply with the Fairs and Expositions (F&E) Contract Manual for DAAs, which requires contracts over \$75,000 to be submitted to F&E for approval prior to the start of the contract. The June 2007, multi-year rental agreement (#2007-01) with Mariposa County that extends through June 2009 exceeds the \$75,000 submission requirement. Approval from F&E with regards to hazard insurance, indemnification language, and propriety is required for all contracts in excess of \$75,000.

Recommendation

The Fair should comply with the Contract Manual for DAAs and submit rental agreement #2007-01 to F&E for multi-year and hazardous activities approval. In the future, all multi-year contracts with a term, including options to renew, exceeding five years, and/or contracts that exceed \$75,000 should be sent to F&E for approval prior to the start of the contract.

ACCOUNTS PAYABLE

The Fair made an attempt to, but did not fully accrue all liabilities at year-end. The Fair understated accounts payable at year-end because the Fair did not accrue all 2008 payable at year-end. Our office noted unrecorded liabilities of \$4,224 at year-end relating to 2008 expenses that were subsequently paid in January 2009. The accrual basis of accounting requires the recognition of expenses within the period incurred. If expenses have been incurred but not yet invoiced, an effort should be made to reasonably estimate and accrue the liability for the amount owed. This should be done prior to closing the accounting records and preparing the annual STOP.

Recommendation

The Fair's accounts payable at year-end should include all known payables, including estimates of utilities, even though billings have not yet been received.

INDEPENDENT CONTRACTORS

A review of the Standard 210 Agreements revealed that the Fair did not complete the required Employment Development Department (EDD) DE 542 form for independent contractors. The Fair is required to report to EDD within 20 days of paying or contracting for \$600 or more with an independent contractor in any calendar year by submitting Form DE 542. According to EDD, any business or government entity that is required to file a federal Form 1099-MISC for services received from an independent contractor is required to report specific independent contractor information to EDD. This information is used by EDD to locate parents who are delinquent in their child support obligations.

Recommendation

The Fair should comply with the State Senate Bill 542, which requires entities to report specified information to EDD on independent contractors within 20 days of either making payments totaling \$600 or more or entering into a contract in any calendar year, whichever is earlier. Compliance will help the fair avoid any unnecessary fines or penalties.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between April 13, 2009 and April 24, 2009. My staff met with management on April 24, 2009 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read 'Ron Shackelford', with a long horizontal line extending to the right.

For Ron Shackelford, CPA
Chief, Audit Office

April 24, 2009

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 35A DAA Board of Directors
1	Chief Executive Officer, 35A DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
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